

Message Text

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TAGS: ECON, CG

SUBJECT: GOZ BUDGET FOR 1975; A PRELIMINARY LOOK AT THE
PROBLEM

1. SUMMARY: THE GOZ'S DRAFT BUDGET HAS BEEN SUBMITTED TO THE LEGISLATIVE COUNCIL, AND WHILE WE HAVE YET TO SEE THE DOCUMENT--INDEED WE KNOW LITTLE MORE THAN THAT PLANNED EXPENDITURES ARE Z556.4 MILLION--IT SEEMS CLEAR THAT THERE IS REAL TROUBLE AHEAD. IN THE YEAR THAT JUST ENDED, GOZ REVENUES WERE THE HIGHEST EVER, CLOSE TO 50 PERCENT ABOVE 1973. AND YET ACTUAL SPENDING OUTRAN THE BUDGETED AMOUNT BY 62 PERCENT AND OVERSHOT RECEIPTS BY 31 PERCENT. THE DEFICIT IN 1974 WAS AROUND Z174 MILLION. THE MOST OPTIMISTIC LOOK AT 1975, WHERE RECEIPTS MIGHT HOLD AT CURRENT LEVELS AND THUS NEARLY BALANCE THE BUDGET AT Z556.4 MILLION, WOULD STILL REQUIRE A CUTBACK FROM CURRENT LEVELS

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OF SPENDING BY OVER 20 PERCENT. IN THIS SOCIETY, GIVEN THE FIXED

COMMITMENTS OF THE INVESTMENT PROGRAM AND DEBT SERVICE AND IN VIEW OF THE GOZ'S HISTORICAL DISREGARD FOR BUDGETARY CONTROLS--SUCH A CUTBACK WILL REQUIRE A "REVOLUTIONARY" TURNAROUND IN ATTITUDES AND IN PRIORITIES. THE PROGRAM OF "RADICALIZATION" WHICH NGUZA ANNOUNCED RECENTLY (REFTEL) CANNOT BE EXPLAINED BY THE HARD FINANCIAL FACTS OF LIFE, BUT SOME OF WHAT THE POLITICAL BUREAU AND PRESIDENT MOBUTU SEEM TO BE AIMING AT IN THE NEW PROGRAM MIGHT HAVE ITS ROOTS IN THE GRIM BUDGETARY PROSPECTS OF 1975. END SUMMARY

2. THE ONLY THING WE KNOW ABOUT THE 1975 BUDGET, AT THIS POINT, IS THAT PLANNED EXPENDITURES ARE REPORTED TO BE Z556.4 MILLION AND THAT THE GOVERNMENT SEEKS BUDGET BALANCE. THE FOLLOWING TABLE PUTS THIS FIGURE IN THE CONTEXT OF BUDGETED (B) V. ACTUAL (A) RECEIPTS AND EXPENDITURES FOR 1972 AND 1973. FOR 1974, WE GIVE THE BUDGETED FIGURES AND PROJECT (P) RECEIPTS AND EXPENDITURES BASED ON ACTUAL FIGURES AS OF OCTOBER OF LAST YEAR. ALL IN MILLIONS OF ZAIRE AT Z1 EQUAL \$2, EXCEPT COPPER PRICES WHICH ARE SHOWN IN CENTS PER POUND.

	1972		1973		1974		1975
	(B)	(A)	(B)	(A)	(B)	(P)	(B)
RECEIPTS	305.2	298.8	339.8	373.3	411.7	553.2	
EXPENDITURES	330.0	356.3	364.6	450.0	446.7	727.2	556.4
DEFICIT	24.8	57.5	24.8	76.7	35.0	174.0	
AVERAGE COPPER							
PRICE	53 CENTS		78 CENTS		94 CENTS		

3. SEVERAL TRENDS AND FACTS ARE APPARENT FROM THE ABOVE TABLE: (A) THE RATE OF EXPENDITURES HAS GROWN FASTER THAN THAT OF RECEIPTS; (B) WITH THE EXCEPTION OF 1972, ACTUAL EXPENDITURES OUTRAN BUDGETED AMOUNTS BY SIGNIFICANT MARGINS; (C) 1974 WAS THE WORST YEAR FROM THE BUDGET STANDPOINT: ACTUAL SPENDING OVERSHOT THE BUDGETED AMOUNT BY 62 PERCENT EXPENDITURES OUTRAN RECEIPTS BY 31 PERCENT; AND THE ACTUAL DEFICIT WAS ALMOST FOUR TIMES WHAT THE MINISTRY OF FINANCE HAD PLANNED ON, BUT (D) 1974 WAS THE YEAR OF THE HIGHEST COPPER PRICES EVER, AND IT IS WORTH RECALLING THAT TAXES ON COPPER EXPORTS IN PARTICULAR AND ON THE GECAMINES OPERATION IN GENERAL ACCOUNT FOR 30 PERCENT TO 60 PERCENT OF TOTAL GOZ RECEIPTS, DEPENDING UPON PRODUCTION LEVELS AND THE PRICE OF COPPER.

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4. A LOOK FORWARD THROUGH 1975 ON THE RECEIPTS SIDE CONCENTRATED ON THE LIKELY PRICE OF COOPER AND ON THE AMOUNT OF GECAMINES PRODUCTION THAT THE GOZ WILL DECLARE AS TAXABLE. IN VIEW OF ITS LAST EXPANSION PLAN, GECAMINES PRODUCTION WAS TAXABLE ON ONLY 360,000 MT THROUGH THE END OF 1974. CURRENT PRODUCTION IS AROUND 460,000 MT. EVEN ASSUMING THAT THIS TOTAL PRODUCTION IS TAXED IN 1975--UNLIKELY IN VIEW OF

GEAMINES SECOND EXPANSION PLAN AND THE CONSEQUENT NEED FOR FURTHER INVESTMENT FROM PROFITS--THE AVERAGE PRICE OF COPPER WOULD HAVE TO REACH AROUND 73 CENTS PER POUND IN ORDER FOR THE GOZ TO MAINTAIN ITS 1974 LEVEL OF EXPORT RECEIPTS. AT THE CURRENT PRICE OF AROUND 60 CENTS TAKING EVEN FULL PRODUCTION WOULD MEAN A DROP IN EXPORT REVENUES OF APPROXIMATELY 18 PERCENT. WE DO NOT BELIEVE THAT THE AVERAGE PRICE OF COPPER WILL REACH 73 CENTS PER POUND IN 1975, AND IN VIEW OF GEAMINES AND THE RECENT CIPEC DECISION TO CUT COPPER EXPORTS BY 10 PERCENT WE DO NOT BELIEVE THAT THE GOZ WILL BE ABLE TO COUNT ON 460,000 MT AS THE GEAMINES TAX BASE. OUR BEST GUESS, AND AN OPTIMISTIC ONE, WOULD PUT THE AVERAGE COPPER PRICE FOR 1975 AT 65 CENTS PER POUND AND THE TAXABLE PRODUCTION FROM GEAMINES AT 400,000 MT--WHICH IMPLIES A REDUCTION IN GOZ EXPORT RECEIPTS OF OVER 20 PERCENT--ALL OTHER THINGS BEING EQUAL.

5. THE SAME VAGUE PRESS RELEASE WHICH REPORTED THE BUDGET SUBMISSION TO THE LEGISLATIVE COUNCIL ALSO TALKED OF A NEW EXCISE TAX ON CIGARETTES AND OF "OTHER REFORMS IN TAX LEGISLATION." WE CANNOT CONCEIVE OF ANY TAX REFORM WHICH THE GOZ IS LIKELY TO INSTITUTE IN 1975 WHICH WOULD COMPENSATE FOR THE PROBABLE DECLINE IN EXPORT TAXES ON COPPER. HOWEVER, IF A COMBINATION OF TAX REFORM AND HIGH EXPORT TAX RECEIPTS ASSURED THE SAME LEVEL OF TOTAL REVENUES IN 1975 THAT WE SAW IN 1974, THE 1975 BUDGET WOULD BE IN NEAR BALANCE AT THE Z556.4 MILLION SUBMITTED TO THE LEGISLATIVE COUNCIL--BUT THE LIKELIHOOD THAT THE GOZ CAN REDUCE EXPENDITURES BY OVER 20 PERCENT FROM CURRENT LEVELS IS VERY SLIM INDEED. THE GOZ DEVELOPMENT PLANS, THE CURRENT AND PROJECTED LEVEL OF INVESTMENT AND THE CURRENT AND PROJECTED LEVEL OF DEBT SERVICE ARE FIXED COMMITMENTS WHICH CANNOT BE QUICKLY REDUCED. THE GOZ HAS GROWN USED TO EATING HIGH OFF THE HOG AND THE PROSPECTS OF A REAL BELT TIGHTENING LIMITED OFFICIAL USE

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WHICH THE BUDGET REALITIES WOULD SEEM TO DICTATE WILL NOT COME EASILY.

6. YET IF AN AUSTERITY PROGRAM IS NOT INSTITUTED SOON, THE 1975 DEFICIT WILL BE AT LEAST AS BAD, IF NOT WORSE, THAN THIS YEAR'S. THIS YEAR, THE DEFICIT WAS FINANCED BY PRINTING MONEY AND RUNNING DOWN FOREIGN EXCHANGE RESERVES. IF THE DEFICIT CONTINUES AT THE CURRENT RATE OF AROUND \$30 MILLION PER MONTH, THE LIKELY WAY OUT WILL BE THE PRINTING PRESS. FOREIGN BORROWING IS ALSO POSSIBLE, BUT WHO--IN THE WESTERN WORLD AT LEAST--WILL WANT TO LEND TO A COUNTRY WHICH IS SQUANDERING ITS RESOURCES? THESE QUESTIONS ARE NOT NEW, AND THE GOZ IS CLEARLY WRESTLING WITH THEM. THE PROGRAM OF "RADICALIZATION" WHICH NGUZA ANNOUNCED RECENTLY CANNOT BE EXPLAINED BY THE HARD FINANCIAL FACTS OF LIFE,

BUT SOME OF WHAT THE POLITICAL BUREAU AND PRESIDENT MOBUTU
SEEM TO BE AIMING AT IN THE NEW PROGRAM MIGHT HAVE ITS ROOTS IN
THE GRIM BUDGETARY PROSPECTS FOR 1975.
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